Consensus Forecast 2008 and 2009

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Review of past performance
GDP growth came in close to the consensus forecast.
The unemployment rate edged up just a bit more than expected.
Inflation came in higher than the consensus group anticipated.
This is not too surprising given the large miss on oil prices.
Car and light truck sales were expected to edge higher, however they fell off quite sharply, especially over the past two quarters.
Consumer spending growth showed a similar pattern

Personal consumption expenditures

percent change, annual rate

[Graph showing percent change in personal consumption expenditures from 1994 to 2008.]
Business investment growth was in-line with expectations, although it has been weakening since early last year.
With a slowing economy, businesses did not allow their inventories to rise as much as forecast.
Industrial production growth was close to expectations in the middle of last year, but came in lower over the past two quarters.
Government spending was a bit higher than predicted
The trade deficit improved at a much faster rate than forecast.
Perhaps supported in part by a much weaker dollar

J.P. Morgan trade weighted dollar

percent change, annual rate

1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08
The consensus expected housing starts to bottom, however it continued to fall at a substantial rate.
The greater weakness in housing starts than predicted led to a large miss on residential investment.
Although it would be hard to place the blame on long-term interest rates which came in lower than expected
Short-term interest rates were expected to remain flat, however they fell quite sharply.
Forecast for 2008 and 2009
Median forecast of GDP and related items
(page 1 of book)

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<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>GDP, current dollars*</td>
<td>5.1%</td>
<td>4.0%</td>
<td>5.3%</td>
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<tr>
<td>GDP price index, chain-type*</td>
<td>2.6%</td>
<td>2.6%</td>
<td>2.3%</td>
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<tr>
<td>Real GDP, chained dollars*</td>
<td>2.5%</td>
<td>1.2%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Personal consumption expenditures*</td>
<td>2.6%</td>
<td>1.1%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Business fixed investment*</td>
<td>7.1%</td>
<td>-0.3%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Residential investment*</td>
<td>-18.6%</td>
<td>-16.3%</td>
<td>5.6%</td>
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<tr>
<td>Change in private inventories (billions of constant dollars)**</td>
<td>-$18.3</td>
<td>$8.2</td>
<td>$24.2</td>
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<tr>
<td>Net exports of goods and services (billions of constant dollars)**</td>
<td>-$503.2</td>
<td>-$462.5</td>
<td>-$435.0</td>
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<tr>
<td>Government consumption expenditures and gross investment*</td>
<td>2.3%</td>
<td>1.7%</td>
<td>1.6%</td>
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*Q4 over Q4

**Q4 value
Median forecast of GDP and related items
(page 1 of book)

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<tr>
<td>Industrial production*</td>
<td>2.2%</td>
<td>0.7%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Car &amp; light truck sales (millions - calendar year including imports)***</td>
<td>16.1</td>
<td>15.2</td>
<td>15.6</td>
</tr>
<tr>
<td>Housing starts (millions)***</td>
<td>1.34</td>
<td>0.97</td>
<td>1.06</td>
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<tr>
<td>Oil price (dollars per barrel of West Texas Intermediate)**</td>
<td>$90.85</td>
<td>$106.93</td>
<td>$104.62</td>
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<tr>
<td>Unemployment rate**</td>
<td>4.8%</td>
<td>5.4%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Inflation rate (consumer price index)*</td>
<td>4.0%</td>
<td>3.9%</td>
<td>2.8%</td>
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<tr>
<td>Treasury constant maturity 1-year rate**</td>
<td>3.62%</td>
<td>2.03%</td>
<td>2.90%</td>
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<tr>
<td>Treasury constant maturity 10-year rate**</td>
<td>4.26%</td>
<td>3.92%</td>
<td>4.50%</td>
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<tr>
<td>J.P. Morgan trade weighted OECD dollar*</td>
<td>-7.1%</td>
<td>-2.2%</td>
<td>0.5%</td>
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</tbody>
</table>

*Q4 over Q4
**Q4 value
***Yearly average
Real GDP growth is forecast to remain weak in the current quarter, but then improve in the second half of the year, averaging just under 2%, and then rising during 2009 averaging just under 3%.
The unemployment rate is forecast to rise to 5.5% early next year and edge down to 5.3% by the end of the year.
Oil prices are expected to peak in the current quarter and then move lower reaching $105 in the second half of next year.
The inflation rate is expected to ease to 2.7% by the end of 2009
Short-term interest rates are forecast to remain flat through this year and then rise to 2.90% by the end of 2009.
Light vehicle sales are forecast to improve over the forecast horizon, averaging 15.2 million units this year and then rise to 15.6 million units in 2009.
Similarly, consumption growth is expected to improve modestly through 2009.
Housing starts are expected to bottom in the third quarter of this year, and then edge higher over the rest of the forecast horizon.
Residential investment is forecast to continue reducing its drag on the overall economy, turning positive in the first quarter of next year.
Long-term interest rates are forecast to fall by 34 basis points in 2008 and then rise by 58 basis points in 2009.
Business spending is anticipated to be flat in 2008 and then rise 2.7% next year.
A relatively modest increase in inventories is expected to take place over the forecast horizon.
Industrial output growth is forecast to be soft this year, rising 0.7% and then increasing to 3.0% next year.
Government purchases growth is forecast to remain steady increasing by 1.7% this year and 1.6% next year.
Net exports are expected to continue improving over the forecast horizon.
The dollar is forecast to remain relatively flat both this year and next.
Summary

• The economy is forecast to be soft this year with growth below potential and then growth improves next year growing a bit above potential

• Unemployment is expected to rise this year and then edge lower next year

• Inflation is expected to moderate this year and in 2009

• Light vehicle sales are forecast to average 15.2 million units this year, the lowest level in ten years, and then improve to 15.6 million in 2009

• www.chicagofed.org